

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Davison Downtown Development Authority</b>	County <b>Genesee</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>7/12/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Plante &amp; Moran, PLLC</b>			
Street Address <b>111 East Court Street, Suite 1A</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48502</b>	Date <b>12/05/05</b>

**Annual Financial Report**

**Davison Downtown Development Authority  
Davison, Michigan**

**Fiscal Year Ended June 30, 2005**

**Davison Downtown Development Authority  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2005**

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## **Introductory Section**

**Davison Local Development Finance Authority  
Davison, Michigan  
List of Appointed Officials  
June 30, 2005**

Doug Gilmore	Chairman
George Keiss	Vice Chairman
BJ Musynski	Treasurer
Teresa Taysin	Secretary
Chad Christian	
Karla Hansen	
Sean O'Bryan	
Fred Rappuhn	
Eric Reichle	

*Independent Auditors' Report*

Board of Directors  
Davison Downtown Development Authority  
Davison, Michigan

We have audited the financial statements of the governmental activities of the Davison Downtown Development Authority, Davison, Michigan (DDA), a component unit of the City of Davison, as of June 30, 2005, and for the year then ended, which collectively comprise the DDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DDA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities of the Davison Downtown Development Authority, Davison, Michigan at June 30, 2005, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 4 and the information in the required supplementary information section on page 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DDA's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran PLLC*

July 12, 2005

## **Management's Discussion and Analysis**

**Davison Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2005**

As management of Davison Downtown Development Authority (Authority), we offer readers of Davison Downtown Development Authority's financial statements this narrative overview and analysis of the financial activities of the Davison Downtown Development Authority.

**Overview of the Financial Statements**

The basic financial statements for the Davison Downtown Development Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental funds financial statements. The notes to the financial statements can be found on pages 7 through 14 of this report.

**Financial Highlights**

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of the Authority are \$79,552 of which \$64,620 represents cash and cash equivalents and \$9,905 represents capital assets. The liabilities are \$58,863, which represent trade payables and amounts due to other governments, leaving current net assets of \$20,689.

Net assets decreased \$2,233 for the Authority as a result of \$107,831 in net program expenses, which are offset by general revenues of \$105,598, leaving excess expenses of \$2,233.

**Government-wide Financial Analysis**

<b>Davison Downtown Development Authority</b>		
<b>Net Assets</b>		
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 64,620	\$ 60,504
Prepaid costs	5,027	-
Capital assets, net	9,905	20,992
Total assets	<u>79,552</u>	<u>81,496</u>
Accounts payable	2,618	2,225
Due to other governments	56,245	56,349
Total liabilities	<u>58,863</u>	<u>58,574</u>
Net assets:		
Invested in capital assets	9,905	20,992
Unrestricted	<u>10,784</u>	<u>1,930</u>
Total net assets	<u>\$ 20,689</u>	<u>\$ 22,922</u>



**Davison Downtown Development Authority**  
**Change in Net Assets**

	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Grant revenue	\$ -	\$ 15,000
General revenues:		
Tax increment	102,099	105,481
Interest	1,014	778
Miscellaneous	2,485	-
Total revenues	<u>105,598</u>	<u>121,259</u>
Expenses:		
Development administration	59,972	61,746
Community administration	24,456	16,375
Community promotion	23,403	153,255
Total expenses	<u>107,831</u>	<u>231,376</u>
Decreases in net assets	(2,233)	(110,117)
Net assets – beginning of the year	<u>22,922</u>	<u>133,039</u>
Net assets – end of the year	<u>\$ 20,689</u>	<u>\$ 22,922</u>

**Capital Assets**

At the end of 2005, the DDA had invested \$9,905 in equipment. Capital assets as stated in this annual financial report do not include any real property or infrastructure as any type of this property purchased by the DDA must be titled in the name of the City of Davison.

**Budgetary Highlights**

Total expenditures totaled \$96,744 approximately \$36,000 below budget. Total revenues were approximately \$700 under budget. The façade program had budgeted \$40,000 in expenditures. The budgeted amount included \$30,000 for renovations which were not started yet.

**Contacting the DDA's Financial Administration**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 East Flint Street, Davison, Michigan 48423.

## Basic Financial Statements

## **Government-wide Financial Statements**

**Davison Downtown Development Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**General Fund**  
**June 30, 2005**

	General Fund	Adjustments (Note II A)	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 64,620	\$ -	\$ 64,620
Prepaid costs	5,027	-	5,027
Capital assets, net	-	9,905	9,905
Total assets	<u>\$ 69,647</u>	<u>9,905</u>	<u>79,552</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,618	-	2,618
Due to other governments	56,245	-	56,245
Total liabilities	<u>58,863</u>	<u>-</u>	<u>58,863</u>
<b>Fund Balance/Net Assets</b>			
Fund balances:			
Reserved for prepaid costs	5,027	(5,027)	-
Reserved for streetscape	239	(239)	-
Unreserved:			
Designated for subsequent year's expenditures	5,518	(5,518)	-
Total fund balances	<u>10,784</u>	<u>(10,784)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 69,647</u>	<u>-</u>	<u>-</u>
<b>Net assets:</b>			
Invested in capital assets		9,905	9,905
Unrestricted		10,784	10,784
Total net assets		<u>\$ 20,689</u>	<u>\$ 20,689</u>

*See notes to financial statements.*

**Davison Downtown Development Authority  
Statement of Activities and  
Governmental Fund Revenues, Expenditures, and  
Changes in Fund Balance  
General Fund  
For the Year Ended June 30, 2005**

	General Fund	Adjustments (Note II B)	Statement of Activities
<b>Expenditures/expenses:</b>			
Development administration	\$ 59,972	\$ -	\$ 59,972
Community administration and promotion	13,369	11,087	24,456
Public improvement	23,403		23,403
	<hr/>		<hr/>
Total expenditures/expenses	96,744	11,087	107,831
	<hr/>		<hr/>
<b>General revenues:</b>			
Tax increment revenues	102,099	-	102,099
Interest	1,014	-	1,014
Miscellaneous Revenue	2,485		2,485
	<hr/>		<hr/>
Total general revenues	105,598	-	105,598
	<hr/>		<hr/>
Excess (deficiency) of revenues over expenditures	8,854	(11,087)	(2,233)
	<hr/>		<hr/>
<b>Fund balances/net assets:</b>			
Beginning of the year	1,930	20,992	22,922
	<hr/>		<hr/>
End of the year	\$ 10,784	\$ 9,905	\$ 20,689
	<hr/>		<hr/>

*See notes to financial statements.*

## **Notes to Basic Financial Statements**

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies**

The accounting policies of the Davison Downtown Development Authority (DDA) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison Downtown Development Authority.

**A. Reporting entity**

In 1982, the City of Davison adopted a development and financing plan for downtown. Due to the success of the program, the plan was amended in 1996 and extended for an additional fifteen years.

The Davison Downtown Development Authority is a component unit of the City of Davison and is located in Genesee County, Michigan. The purposes for which the DDA is organized are as follows: To act as a downtown development authority in accordance with Act 197 of the Public Acts of 1975, as such statute may from time to time be amended, including particularly to correct and prevent deterioration in the downtown district, to encourage historical preservation, to create and implement development plans in the district, and to encourage the expansion of commercial enterprises in the downtown district.

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Davison Downtown Development Authority (DDA). The DDA is considered a "component unit" of the City of Davison's (City) governmental operation. As a result, industry standards require the City to include the financial activities of the DDA in the City's Annual Financial Report. The Annual Financial Report of the City of Davison is available for public inspection at city hall.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

General Fund - The General Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The DDA's cash and cash equivalents include cash on hand and demand deposits.

**2. Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**3. Capital assets**

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**3. Capital assets – (continued)**

All real property purchased by the DDA must be titled in the name of the City of Davison. Therefore, any real property purchased by the DDA has not been included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5

**4. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**5. Property tax**

Property taxes are levied each July 1, on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the Downtown Development Authority District including a Tax Increment Financing Area. On July 1, the property tax attachment is an enforceable lien on the property. Assessed values are established by the City Assessor at 50% of estimated market value. The DDA's tax revenue within the Tax Increment Financing Area is the sum of all taxes levied on the increase in taxable value since designation as a Tax Increment Financing Area. Taxes are billed and collected by the City of Davison and are due by February 28 following the levy date. DDA property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

**6. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets	<u>\$ 9,905</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$ 9,905</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Depreciation expense	<u>\$ 11,087</u>
Net adjustment to decrease <i>net changes in fund balances -total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 11,087</u>

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The DDA follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the budget committee submits to the board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the General Fund.
2. Prior to June 30, the budget is legally enacted on a functional basis for the General Fund. The City Council must also approve the budget.
3. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
4. Budget appropriations lapse at year end.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**III. Stewardship, compliance, and accountability – (continued)**

**A. Budgetary information – (continued)**

5. The original budget was amended during the year in compliance with applicable state laws. The budget to actual expenditures in the financial statements represent the final budgeted expenditures as amended by the board.

**B. Excess of expenditures over appropriations**

The following individual cost centers incurred expenditures in excess of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Final Budget</u>
Development administration:			
Insurance	\$ 5,000	\$ 5,218	\$ 218
Community administration and promotion:			
Farmer's Market expense – net	5,935	6,455	520
Public improvement:			
Christmas	3,100	4,508	1,408

**IV. Detailed notes on all funds**

**A. Deposits and investments**

**Deposits:**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated four banks for the deposit of it's funds (JP Morgan/Chase, Republic Bank, Davison State Bank, and Citizens Bank). The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized all the above noted investments per the state statute. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority cash and investments are subject to several types of risk, which are examined in more detail below:

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds - (continued)**

**A. Deposits and investments - (continued)**

**Custodial credit risk of bank deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The Authority is not subject to deposit custodial credit risk at year end as all of the Authority's deposits were fully insured by FDIC coverage.

**Custodial credit risk of investments:**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase Agreement (Sweep)	\$ 57,619	Counterparty

**B. Capital assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

***Primary Government***

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Equipment	\$ 48,313	\$ -	\$ (17,203)	\$ 31,110
Total capital assets being depreciated	48,313	-	(17,203)	31,110
Less accumulated depreciation for:				
Equipment	27,321	4,981	(11,097)	21,205
Total accumulated depreciation	27,321	4,981	(11,097)	21,205
Total capital assets, being depreciated, net	20,992	(4,981)	(6,106)	9,905
Governmental activities capital assets, net	\$ 20,992	\$ (4,981)	\$ (6,106)	\$ 9,905

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

**Current:**

    Community administration and promotion \$ 11,807

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Due to other governments**

Included in due to other governments is \$50,000 loaned by the City of Davison to the DDA for the purchase of property in the DDA's district. The loan is to be repaid upon the sale of the property with no interest.

**V. Other information**

**Risk management**

Risk Management - primary government:

The DDA is exposed to various risks of loss related to property loss, torts, errors, and omissions. The DDA has purchased liability insurance coverage.

**VI. Revenues and expenditures**

**A. Property taxes:**

In 1981, the Davison Downtown Development Authority entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools. An additional district was added in 1996. The DDA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) times the Captured Taxable Value (the difference between current taxable value and the initial taxable value). The initial taxable values were established in 1982 (\$1,713,057) and 1996 (\$1,829,857), respectively. The programs were authorized to continue for a period of fifteen years. The initial plan established in 1982 was renewed for another fifteen years in 1997 taking the plan through 2012.

During 1994, Proposal A was passed by Michigan taxpayers limiting the school millage rates. The law also eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in taxable value within the Tax Increment Financing Area that can be captured and passed through to the DDA. There are three exceptions to this portion of the law under which the school millage could be continued as part of the captured assessment calculation: 1) the DDA has a legal debt obligation; 2) the DDA has an eligible advance payable; 3) or the DDA has specific project commitments. This change in the law, related to the school mills, also applied to the payments received in lieu of taxes from the senior citizens housing complex. These changes drastically reduced the property taxes the DDA received.

The captured taxable values in excess of the initial taxable values for June 30, 2005 by district is as follows:

District 1 -	\$3,759,832
District 2 -	536,536

The DDA is using the tax increment revenues to improve the plan areas and has created 30 - 40 jobs through the implementation of this plan.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**VI. Revenues and expenditures – (continued)**

**B. Leases**

The DDA lease storage space located in the City under a lease agreement with the City of Davison. The lease may be terminated by either party after a 30-day notification period. The lease expenditure amounted to \$900 in the current year.

Future minimum payments required under the lease are as follows:

<u>Years</u> <u>Ending</u>	<u>Amount</u>
2006	\$ 900
2007	225
	<u>\$ 1,125</u>

**VII. DDA proposed improvement projects**

The location, extent and character of the proposed improvements noted in the DDA's plan are identified below. It is estimated that the projects will be completed by the year 2012.

Future minimum payments required under the plan to complete each project are as follows:

<u>Project</u> <u>Priority</u>	<u>Project</u> <u>Description</u>	<u>Location</u>	<u>Estimated</u> <u>Cost</u>
High	Streetscape	Second to Main Street	\$50,000 - \$60,000
High	Repave and rebuild sidewalks	District wide	30,000
Medium	Decorative lighting	District wide	130,000
Medium	Streetscape	M-15 length of the District	250,000
Medium	Farmer's Market	Main and Second Street	50,000
Low	ADA Compliance program	District wide	(cost based on study depth)
Low	Commercial property	Corner of Mill Street and M-15	400,000
Low	Mill Street improvements		75,000
Low	Parking deck construction	End of East Second Street	1,000,000
On-going	DDA administration and promotional activities	District wide	variable

**Davison Downtown Development Authority  
Schedules of Revenues, Expenditures, and Changes in  
Fund Balances - Budget and Actual  
General Fund  
For the Year Ended June 30 2005**

	<b>Budget</b>		<b>Actual</b>	<b>Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Tax increment revenues	\$ 105,000	\$ 105,000	\$ 102,099	\$ (2,901)
Interest	250	750	1,014	264
Miscellaneous Revenue	-	524	2,485	1,961
<b>Total revenues</b>	<b>105,250</b>	<b>106,274</b>	<b>105,598</b>	<b>(676)</b>
<b>Expenditures:</b>				
Current:				
Development administration:				
Administrative staff	28,728	29,000	28,684	(316)
Dues and memberships	500	500	350	(150)
Insurance	5,000	5,000	5,218	218
Audit fees	1,500	2,000	2,000	-
Administrative expense and travel	1,000	718	246	(472)
Maintenance	16,000	20,500	17,888	(2,612)
Lease payments	900	900	900	-
Decoration placement labor	5,000	700	700	-
Utilities	3,000	5,000	3,986	(1,014)
<b>Total development administration</b>	<b>61,628</b>	<b>64,318</b>	<b>59,972</b>	<b>(4,346)</b>
Community administration and promotion:				
Promotion and marketing	5,000	1,000	334	(666)
Pumpkin Festival expense - net	500	6,640	6,580	(60)
Farmer's Market expense - net	4,000	5,935	6,455	520
Events director	1,000	500	-	(500)
<b>Total community administration and promotion</b>	<b>10,500</b>	<b>14,075</b>	<b>13,369</b>	<b>(706)</b>
Public improvement:				
Engineering	17,000	2,000	1,200	(800)
Plan review	5,000	-	-	-
Paving	5,000	1,000	200	(800)
Streetscaping	10,000	7,725	7,495	(230)
Contingency	1,000	1,000	-	(1,000)
Christmas	500	3,100	4,508	1,408
Façade program	-	40,000	10,000	(30,000)
<b>Total public improvement</b>	<b>38,500</b>	<b>54,825</b>	<b>23,403</b>	<b>(31,422)</b>
<b>Total expenditures</b>	<b>110,628</b>	<b>133,218</b>	<b>96,744</b>	<b>(36,474)</b>
Excess (deficiency) of revenues over expenditures	(5,378)	(26,944)	8,854	35,798
Fund balance - beginning of year	1,930	1,930	1,930	-
<b>Fund balance - end of year</b>	<b>\$ (3,448)</b>	<b>\$ (25,014)</b>	<b>\$ 10,784</b>	<b>\$ 35,798</b>



July 12, 2005

Members of the Board  
Davison Downtown Development Authority  
Davison, Michigan

We have audited the financial statements of the Davison Downtown Development Authority (the DDA) for the year ended June 30, 2005, and have issued our report thereon dated July 12, 2005. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal controls of the DDA. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Status of Prior Year Comments**

A capitalization policy needed to be adopted. The board adopted a capitalization policy during the year.

### **Current Year Comments**

#### **Budget**

The budget for 2005-2006 was balanced through the use of current year fund balances; however, the amount to be used, \$44,245, exceeds the amount available of \$10,784. We recommend that the budget be amended to reflect the actual amount available.

#### **Cash Receipts**

During the audit, it was noted that cash receipts are not consistently written to the farmer's market vendors. We recommend written cash receipts always be given to vendors at the time of payment.



### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the DDA are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of the existing policies was not changed during the year ended June 30, 2005. We noted no transactions during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the DDA that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We made adjustments to accounts payable, prepaid costs, and related expenditures.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the DDA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

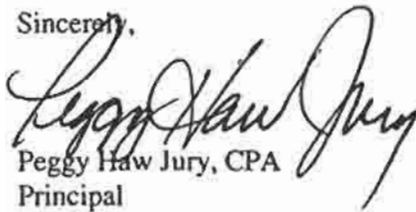
### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

Members of the Board  
Davison Downtown Development Authority  
July 12, 2005  
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We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by Beth Holm and Colleen Hackney during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,



Peggy Haw Jury, CPA  
Principal